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SUPREME COURT, U.S.

No. 06-1440

IN THE
Supreme Court of the United States

LORILLARD TOBACCO COMPANY,
Petitioner,

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

Respondent recognizes that the Petition presents "important questions at the intersection of trademark infringement law and preliminary injunction standards." Br. in Opp. 11. Respondent does not dispute that the sale of counterfeit goods is an extremely serious problem, and that Congress has enacted special legislation to combat it. The brief of *amici curiae* Washington Legal Foundation and the National Association of Manufacturers confirms the exceptional importance of the questions presented.

Respondent's primary contention is that this case is a poor vehicle for deciding the important questions presented by the Petition, because the record is not fully developed. That is not so. The record in this case establishes all the facts necessary to decide the questions presented. Neither the district court nor the court of appeals questioned the undisputed evidence that Respondent sold counterfeit Newport cigarettes. At issue is the appropriateness of a decision by the court of appeals affirming the denial of a preliminary injunction prohibiting further sales of counterfeit cigarettes based on factors that other courts of appeals have expressly rejected. The issues are important precisely because preliminary injunctions are a crucial weapon in the fight against counterfeiting and those who profit from such illicit activity. The Court should therefore grant the Petition.

1. Respondent's contention (Br. in Opp. 7-11) that the record is too poorly developed to support review by this Court is incorrect. As Respondent acknowledges (*id.* at 7), Petitioner submitted three sworn affidavits in support of a preliminary injunction. William Blakslee stated under oath that he purchased counterfeit cigarettes from Respondent's business. Ashley Pughes stated under oath that, in response to a complaint from another retailer, he obtained a counterfeit package of

cigarettes from Respondent's business by exchanging it for a genuine package of Newport cigarettes. In a third affidavit, Edward O'Brien stated under oath that he examined the two packages in detail and, based on his "specialized knowledge of Lorillard's packaging and other quality assurance aspects of genuine Lorillard cigarettes," confirmed that they were counterfeits. This evidence was undisputed. Neither court below suggested that it was in doubt for purposes of a preliminary injunction.

Respondent incorrectly asserts that the affidavits should be ignored because the witnesses did not present live testimony at an evidentiary hearing. There is no requirement that preliminary injunctions be based on live testimony. To the contrary, preliminary injunctions frequently are granted on the basis of affidavits. *E.g.*, 13 *Moore's Federal Practice* § 65.23 (3d ed.) ("Submission of affidavits in support of a motion for a preliminary injunction is customary."); *United Healthcare Ins. Co.* v. *AdvancePCS*, 316 F.3d 737, 739 (8th Cir. 2002) ("Because undisputed evidence existed in the affidavits to support the preliminary injunction, we affirm."); *Bradley* v. *Pittsburgh Bd. of Educ.*, 910 F.2d 1172, 1176 (3d Cir. 1990) ("[A] decision may be based on affidavits and other documentary evidence if the facts are undisputed and the relevant factual issues are resolved.").[1]

Respondent next contends that Petitioner failed to submit proposed findings of fact and conclusions of law, and that the district court failed to enter findings of fact and conclusions of law as required by Federal Rule of Civil Procedure 52. But Rule 52(a) specifically provides that "requests for findings are not necessary for purposes

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[1] Although live testimony is unnecessary, Petitioner brought one of its three witnesses to the hearing in case the district court wished to hear such testimony. Feb. 24, 2006 Tr. at 5 (A copy of this transcript is on file with the Clerk.).

of review," and that the district court's findings and conclusions may be oral rather than written. Here the district court orally announced its findings and conclusions. It stated: "The most reasonable inference that I can make . . . is that [Respondent] happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes." Feb. 24, 2006 Tr. at 8. Moreover, the district court expressly stated that it was denying a preliminary injunction. *Id.* at 2a-3a ("[Y]ou're asking for a preliminary injunction at this point"; "[Y]ou want me to continue this extraordinary relief by way of a preliminary injunction,"; "I'm not going to place the imprimatur of the federal government and the United States judiciary on a preliminary injunction"). The court of appeals found that the district court denied a motion for a preliminary injunction. Pet. App. 2a. ("[W]e find that during the February 24 hearing, the district court not only dissolved the TRO, but also denied preliminary injunctive relief.").

Respondent states that he intends to raise substantive due process and void-for-vagueness challenges to the strict liability provisions of Anti-Counterfeiting Consumer Protection Act. Respondent's intended constitutional challenges provide no reason to deny the petition for certiorari. Respondent's vagueness challenge is doomed to fail because unequivocal statutory language imposes liability on sellers of counterfeit goods without regard to their intent. *See* 15 U.S.C. §§ 1117(a) (separately imposing damages for "the violation of any right" of a trademark owner and for "a willful violation"); 1117(c)(1)-(2) (separately imposing statutory damages of $500 to $100,000 for any case involving the use of a counterfeit mark, and up to $1 million if the use was "willful"). Similarly, Respondent's substantive due process challenge lacks merit because a strict liability standard often applies in the civil context. *See, e.g.*, *TRM, Inc.* v. *United States, Dep't of Agric.*, 52 F.3d 941, 946 (11th Cir. 1995) (imposing strict liability on store owners

for trafficking in food stamps does not violate due process). The difficulty of preventing counterfeiting, and the wide range of statutory damages reflecting different degrees of culpability, place the strict liability provisions of the Lanham Act well within constitutional boundaries. In analogous situations the Constitution permits the imposition of a strict liability standard even the criminal context. *E.g.*, *United States* v. *Dotterweich*, 320 U.S. 277, 281 (1943). Thus, it is not arbitrary to apply a strict liability standard to the counterfeiting context.

2. There is likewise no basis for Respondent's argument (Br. in Opp. 11-16) that the factual predicates for injunctive relief are disputed.

a. *Likelihood of success on the merits.* Respondent contends that Petitioner "failed to even request an opportunity to present evidence in support of its motion." Br. in Opp. 11. Respondent goes so far as to assert that "Lorillard has not offered any evidence or testimony at all, let alone evidence establishing that the two offending packs were purchased at Respondent's store or that they are counterfeit." *Id.* at 12. These assertions are incorrect. Once again, Respondent ignores the sufficiency of the sworn affidavits that Petitioner presented to the district court, as well as the appearance of one of Petitioner's affiants at the hearing. *See supra* pp. 1-2, 4. Instead Respondent points to his unsworn statement – made after the district court denied a preliminary injunction – that "I'm sure I didn't do anything wrong. I buy my cigarettes from known sources, Sam's Club and the Cigarette Store." Feb. 24, 2006 Tr. at 9. That statement does not contradict Petitioner's evidence that counterfeit Newport cigarettes were sold and exchanged at Respondent's store.

Respondent also contends that there is no evidence that he personally sold the counterfeit cigarettes. Respondent Engida is doing business as I & G Liquors. It thus makes no difference whether the counterfeit cigarettes were sold by Mr. Engida himself or by one of

his employees. *E.g.*, *Meyer* v. *Holley*, 537 U.S. 280, 285 (2003) (Congress "legislates against a legal background of ordinary tort-related ' vicarious liability rules and consequently intends its legislation to incorporate those rules."). Respondent also contends that it is not clear what Mr. Blakslee meant by stating that he "secured" counterfeit cigarettes from Respondent's retail store. Mr. Blakslee's affidavit specifically states, "I *purchased* a pack of cigarettes from I and G Liquors on January 31, 2006." (emphasis added). There is also no merit to Respondent's complaint that the affidavit omitted irrelevant facts, *viz* that the Blakslee affidavit does not specify how he gained access to the store or whether he disclosed that he represented Petitioner. Br. in Opp. 12.[2]

In short, Petitioner presented undisputed evidence that Respondent sold counterfeit Newport cigarettes. Both courts below accepted Petitioner's uncontradicted evidence of such sales, but nevertheless denied a preliminary injunction.

b. *Irreparable Injury.* Respondent does not dispute that the sale of counterfeit goods causes irreparable harm to the trademark owner. As many courts have recognized, counterfeiting causes serious economic harm that is often difficult to quantify. *See* Pet. 12-14 & n.16 (collecting cases). Moreover, counterfeiting by definition deprives the trademark owner of control of its trademark. *Id.*

While not disputing these principles, Respondent denies that there was any evidence that Petitioner was likely to suffer harm from future violations. Br. in Opp.

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[2] Respondent contends that documents seized from his store are not in the record. These documents are described in the record (Pet. App. 2a), however, and they indicate that Respondent obtained cigarettes outside the usual channels of distribution.

15. That is incorrect. There is evidence that Respondent actually sold or exchanged counterfeit cigarettes on at least two occasions. He remains in business, and objected to a preliminary injunction on the ground that it might compel him to stop selling Newport cigarettes –indicating that he intended to continue selling them in the absence of an injunction. Respondent asserted that it is difficult for him to distinguish counterfeit cigarettes from the genuine article, and expressed no willingness to obtain cigarettes from different suppliers. The fact that no counterfeit cigarettes (and only 20 packages of cigarettes of any kind) were found during a second visit to the store may well be due to the fact that Respondent was tipped off to the raid.

c. *Balance of Hardships.* Respondent does not attempt to defend the court of appeals' determination that the hardship to Petitioner of denying a preliminary injunction is outweighed by the hardship to Respondent of granting an injunction. Instead, Respondent argues that Petitioner presented no evidence of hardship at all. Br. in Opp. 19. That is incorrect. *See* section 2(b), *supra.* Respondent also asserts that a preliminary injunction is unnecessary because Congress has already imposed strict liability on sellers of counterfeit goods. That is also incorrect. While strict liability is a powerful weapon (and demonstrates how seriously Congress views the problem of counterfeiting), a preliminary injunction is an essential additional tool to stop sales of counterfeit goods while a case is pending.

d. *Public Interest.* Respondent also asserts (Br. in Opp. 13) that Petitioner presented no evidence that a preliminary injunction would serve the public interest, beyond arguing that it would benefit Petitioner. There can be no serious dispute that "Congress determined that 'a sound public policy requires that trademarks should receive nationally the greatest protection that can be given them.'" *Park 'n Fly* v. *Dollar Park & Fly, Inc.*, 469

U.S. 189, 193 (1985). This is especially true in the context of counterfeiting, which is "hard core" or "first degree" trademark infringement. *See* Pet. 2. Preventing the sale of any and all counterfeit goods is unquestionably in the public interest.

Respondent acknowledges the public interest "in stopping the flow and sale of counterfeit goods," (Br. in Opp. 13) but argues that in the legislative history of the Anti-Counterfeiting Act Congress recognized that "unwitting retailers" are themselves injured by counterfeiting, and therefore unwitting retailers should not be subjected to preliminary injunctions. *Id.*, citing S. Rep. 104-177, p. 2. This argument is baseless. Scienter is not an element of a claim based on the sale of counterfeit merchandise; and the statutory text plainly imposes strict liability on all retailers that sell counterfeit goods. *E.g.*, 5 U.S.C. § 1117(c). Moreover, it is far from clear that Respondent was an unwitting seller of counterfeit goods. And even if he was, once Petitioner presented evidence that he was selling counterfeit merchandise, he could no longer claim to be unaware of the problem.[3]

3. Respondent incorrectly contends (Br. in Opp. 16-21) that the court of appeals decision does not conflict with any decision of any other court of appeals.

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[3] To the extent that legislative history is relevant, a more pertinent statement is that irreparable injury "will not ordinarily be a difficult showing in a counterfeit case. . . . The courts have repeatedly held that the distribution of infringing goods constitutes irreparable injury sufficient to order preliminary relief. . . . Since the marks at issue here are not merely infringing but counterfeit marks, this conclusion will be still more easily reached." Joint Statement on Trademark Counterfeiting Legislation, 130 Cong. Rec. H12076, H12081 (1984) (citations omitted).

a. The court of appeals held that a retailer's sale of counterfeit goods does "not necessarily" demonstrate the "certain and great harm" harm necessary for a preliminary injunction. Pet. App. 5a. In a virtually identical case, the Sixth Circuit held exactly the opposite. *Lorillard Tobacco Co.* v. *Amouri's Grand Foods, Inc.*, 453 F.3d 377, 382 (6th Cir. 2006). The Sixth Circuit concluded that: (1) the retailer's sale of counterfeit goods establishes that the manufacturer is likely to succeed on the merits; (2) irreparable harm is established by the manufacturer's loss of control over the quality of goods that bear its trademark; (3) the harm visited on the retailer is "hardly a legally cognizable one," since it is simply prohibited from engaging in further illegal acts; and (4) the public interest points strongly in favor of granting injunctive relief.

Respondent asserts that "[a]ll of the cases relied on by Petitioner to show the purported conflict with the Tenth Circuit were decided prior to this Court's decision in" *eBay* v. *MercExchange, LLC*, 126 S. Ct. 1837 (2006). In fact, *Amouri's* was decided *after* this Court's decision in *eBay*. And as Respondent acknowledges, the Sixth Circuit subsequently held that a preliminary injunction was warranted in a trademark infringement opinion that cites *eBay* and casts no doubt on the correctness of the decision in *Amouri's*. *See Audi AG* v. *D'Amato*, 469 F.3d 534, 550 (6th Cir. 2006).

Contrary to Respondent's assertion, the Sixth Circuit's decision in *Amouri's* does not adopt "precisely the kind of categorical rule or general principle applicable to a broad swath of cases that was condemned in the *eBay* decision." Br. in Opp. 19. *eBay* holds that the decision whether to grant or deny injunctive relief in patent infringement cases "rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity." 126 S. Ct. at 1841. The decisions of the Sixth

Circuit and other courts of appeals apply traditional principles of equity to the counterfeiting context. Because selling counterfeit goods is a strict liability offense, proof of such a sale necessarily establishes a likelihood of success on the merits. And because selling counterfeit goods deprives the trademark owner of control over goods bearing the trademark, irreparable harm "ordinarily" follows from the sale of such goods. Moreover, other circuits have held that the factors the court of appeals relied upon as a basis for holding that the harm to Respondent outweighed the harm to Petitioner are invalid and an abuse of discretion under traditional equitable principles. *See eBay*, 126 S. Ct. at 1841-42 (Roberts, C.J., concurring) ("Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.") (quoting *Martin* v. *Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)).[4]

b. Respondent barely tries to defend the court of appeals' reliance on possible harm to the retailer from assuming the consequences of a known risk of infringement, possible monetary harm from lost sales, the difficulty of distinguishing counterfeit goods from genuine goods, and the retailer's relative size – factors that other courts of appeals have rejected. *See* Br. in Opp. 19-21. Respondent observes that the court of appeals did not hold that a preliminary injunction must be denied in *every*

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[4] Respondent contends that *Amouri's* is distinguishable on its facts, because in that case additional packages of counterfeit cigarettes were found when the seizure order was executed. But the Sixth Circuit's decision rested squarely on the fact that "[g]oods [were] being offered for sale that purport, via their use of Lorillard's marks, to have been produced by Lorillard, but that were not." 453 F.3d at 382. The court made no distinction between the packages obtained pursuant to the seizure and those that were purchased by Lorillard employees.

counterfeiting case in which a retailer establishes one or more of these factors. That would have resulted in an even worse decision, but it does not change the fact that other courts of appeals have held that it is an abuse of discretion for a district court to rely upon these factors as a basis for denying an injunction in *any* counterfeiting case. *See* Pet. 17-24. In *Amouri's*, for example, the Sixth Circuit held that it was an abuse of discretion for the district court to deny a preliminary injunction, and specifically rejected the argument that it is proper to deny an injunction on the ground that counterfeits are difficult to detect. *See* Pet. 13 n.15. In this case, the court of appeals held that it is appropriate to deny a preliminary injunction based on exactly the factors that other courts of appeals have rejected – factors that are extremely common in counterfeiting cases. The court of appeals' decision thus poses a serious threat to efforts to combat the serious problem of counterfeiting.

The courts of appeals have come to different conclusions on important questions of federal law that can only be reconciled by this Court. Respondent's argument that this case is not a good vehicle to decide the questions presented is unpersuasive.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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